



1921 Gallows Road
Suite 900
Vienna, VA 22182
USA

Main +1 703 917 0143
Fax +1 703 827 9266

milliman.com

January 13, 2012

Via Overnight Delivery

Ms. Sarabeth Snuggs
State Retirement Director
Division of Retirement
1317 Winewood Boulevard, Building 8
Tallahassee, FL 32399

Re: Study Reflecting the Impact to the Florida Retirement System of
Increasing the Vesting Period for Members Initially Enrolled on or after July 1, 2012

Dear Sarabeth:

As you requested, we have studied the fiscal impact to the Florida Retirement System of increasing the vesting period for members initially enrolled on or after July 1, 2012. The study shows the results of three separate scenarios, which would increase the vesting requirement to 9, 10, and 11 years, respectively.

Background

Prior to the passage of 2011 Senate Bill 2100, 3rd Engrossed, Enrolled (SB 2100), the Florida Retirement System defined benefit plan required 6 years of service to be vested in the plan, and 8 years of service to be eligible for non-duty disability benefits. SB 2100 required members initially enrolled on or after July 1, 2011 ("Tier II" members) to complete 8 years of service to be vested in the plan. The eligibility for non-duty disability benefits was not modified by SB 2100 and remains at 8 years of service. This proposal would create a third tier of membership, which would require either 9, 10 or 11 years of service for eligibility for vesting, early retirement, unreduced service retirement based on age, and non-duty disability benefits for members initially enrolled on or after July 1, 2012.

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Methodology and Assumptions

The proposal would affect all active members joining the FRS on or after July 1, 2012. Increasing the vesting period for future hires would provide a savings to FRS since fewer members would either ultimately become vested in the plan, or eligible for a pre-retirement death benefit. In addition, eligibility for retirement might be delayed for members hired later in their careers.

To study the impact of this proposal, we re-ran the July 1, 2011 valuation for active members changing the vesting requirement. We determined the impact of this prospective benefit change to be the change in Normal Cost rates. Because Normal Cost and Present Value of Future Normal Cost (PVFNC) are reduced by this proposal whereas the Present Value of Benefits (PVB) (based on benefits expected to be paid to current and former members, as of July 1, 2011 and earlier) is unchanged, the actuarial accrued liability is increased by this proposal. The actuarial accrued liability is defined as PVB less PVFNC. Thus, if PVFNC decreases and PVB remains the same, the actuarial accrued liability increases. The PVB will decrease in future valuations as current members are replaced by members impacted by the change in benefits.

In addition, we assumed that the change in the vesting schedule would not impact a future member's decision as to when to terminate, postpone retirement, or retire with or without DROP participation. It is possible that without a corresponding increase in the vesting in the DC Plan, a greater percentage of future hires, at hire, might initially elect DC Plan participation. This study does not address the potential impact of reducing future enrollment in the DB Plan. This change would also impact the present value calculation of transfers between the DC Plan and the DB Plan.

We used demographic and economic assumptions consistent with those used in the July 1, 2011 valuation, with the above modifications. The study projected the change in system liabilities and recommended contribution levels as of the July 1, 2011 valuation.

Results

The results for this study are shown in the tables as described below. Table I, II and III show the results for scenarios under which the vesting period was increased to 9 years, 10 years, and 11 years, respectively. Each table details the results by class. The contribution rates are presented by class of membership and in aggregate, and reflect the increase/(decrease) in the contribution rate.

Section A of each table includes the normal cost as of July 1, 2011, and the impact of the proposed change to the vesting period. In addition, the change in liability attributable to the

proposal was amortized over 30 years with the payments assumed to remain relatively stable when expressed as a percentage of payroll. Section B of the table shows the change in the unfunded actuarial liability, while Section C of the table translates the estimated change in contribution rates to a reduction in dollars to be paid by employers.

As shown in Table I, the projected impact of 9 year vesting results in a net savings to the System, although actuarial liabilities are projected to increase by \$45.5 million. This benefit change results in a decrease in the composite Normal Cost rate of 0.04% and an increase in the composite UAL rate of 0.01%, and therefore, an overall decrease in contribution levels of 0.03%, for the Composite System. This translates into an estimated overall employer contribution savings of \$7.7 million for Fiscal Year 2012-2013.

Table II shows the projected impact of 10 year vesting results in a net savings to the System, although actuarial liabilities are projected to increase by \$95.1 million. This benefit change results in a decrease in the composite Normal Cost rate of 0.07% and an increase in the composite UAL rate of 0.02%, and therefore, an overall decrease in contribution levels of 0.05%, for the Composite System. This translates into an estimated overall employer contribution savings of \$13.1 million for Fiscal Year 2012-2013.

Table III shows the projected impact of 11 year vesting results in a net savings to the System, although actuarial liabilities are projected to increase by \$138.4 million. This benefit change results in a decrease in the composite Normal Cost rate of 0.11% and an increase in the composite UAL rate of 0.03%, and therefore, an overall decrease in contribution levels of 0.08%, for the Composite System. This translates into an estimated overall employer contribution savings of \$22.9 million for Fiscal Year 2012-2013.

The results for the three scenarios are summarized in the following table:

Proposed Vesting Period	Additional/(Reduced) Actuarial Liabilities (\$million)	Change in the Composite Normal Cost Rate (%)	Change in the Composite UAL Rate (%)	Change in the Composite Contribution Rate (%)	Employer Contribution Savings FY12-13 (\$million)
9 Years	\$45.5	-0.04%	0.01%	-0.03%	\$7.7
10 Years	95.1	-0.07	0.02	-0.05	13.1
11 Years	138.4	-0.11	0.03	-0.08	22.9

The calculations are based on data and other information provided to us by the Division of Retirement for the July 1, 2011 actuarial valuation and supplemented for purposes of this study. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

This analysis is based on methods and assumptions used in the July 1, 2011 actuarial valuation, and the additional assumptions discussed earlier in this letter. The data was based on the July 1, 2011 FRS actuarial valuation database. The results of our study depend on future experience conforming to those actuarial assumptions. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent future experience deviates from those assumptions, the results of this analysis could vary from the results presented here.

Milliman's work product was prepared exclusively for the internal business use of Florida Department of Management Services, Division of Retirement for a specific and limited purpose. It is a complex technical analysis that assumes a high level of knowledge concerning the Florida Retirement System's operations, and uses Division data, which Milliman has not audited. To the extent that Milliman's work product is not subject to disclosure under applicable public record laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

- (a) The Division of Retirement may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The Division of Retirement may provide a copy of Milliman's work, in its entirety, to other Governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this



Ms. Sarabeth Snuggs
January 13, 2012
Page 5

proposal with counsel.

I, Robert Dezube, am a consulting actuary for Milliman, Inc. We are members of the American Academy of Actuaries, and meet their Qualification Standards to render the actuarial opinion contained herein.

Please call if you would like to further discuss this project.

Sincerely,

Milliman, Inc.

A handwritten signature in cursive script that reads 'Kathryn M. Hunter'.

Kathryn M. Hunter, ASA
Associate Actuary

A handwritten signature in cursive script that reads 'Robert S. Dezube'.

Robert S. Dezube, FSA
Consulting Actuary

Enclosures

RSD/KH/JG/GIB23
M:\GIB\GIB23\2011\GIB23_Letter.doc

FLORIDA RETIREMENT SYSTEM
FISCAL IMPACT ANALYSIS

Impact of Increasing the Vesting Period for Members Initially Enrolled on or after July 1, 2012
Scenario 1: Vesting Period Increased to 9 Years

	FRS		Special Risk		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite
	Regular	Regular	Administration	Judicial	Leg-Atty-Cab	County				
A. Contribution Rates										
1. Present System Employer Costs (as reported the July 1, 2011 valuation - Table IV-4)										
a. Normal Cost	3.54%	10.74%	3.43%	9.93%	6.38%	8.20%	4.80%	4.68%	4.33%	4.64%
b. UAL Cost	2.38%	8.32%	37.14%	17.74%	37.41%	32.50%	14.73%	3.56%	6.21%	3.82%
c. Total Cost - FY 2013	5.90%	19.06%	40.57%	27.64%	43.79%	40.70%	19.53%	8.24%	10.54%	8.46%
2. Change in Contribution Rates due to Proposed Change Effective FY 2013 if Paid by Employer										
a. Normal Cost	-0.04%	-0.05%	0.00%	-0.06%	-0.39%	-0.34%	-0.06%	-0.04%	-0.02%	-0.04%
b. Amortization of UAL Cost	0.01%	0.02%	0.00%	0.00%	0.13%	0.12%	0.02%	0.01%	0.00%	0.01%
c. Total Change in Cost	-0.03%	-0.03%	0.00%	-0.06%	-0.26%	-0.22%	-0.04%	-0.03%	-0.02%	-0.03%
B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)										
	\$28,140	\$14,875	\$2	\$70	\$147	\$844	\$1,433	\$45,511	\$0	\$45,511
C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be paid by Employer for FY 2013 (000 omitted)										
1. State	(\$775)	(\$238)	\$0	(\$62)	(\$16)	\$0	(\$79)	(\$1,170)	(\$108)	(\$1,278)
2. School Boards	(\$3,187)	(\$5)	\$0	\$0	\$0	(\$18)	(\$21)	(\$3,231)	(\$247)	(\$3,478)
3. State Universities	(\$132)	(\$6)	\$0	\$0	\$0	\$0	(\$3)	(\$141)	(\$27)	(\$168)
4. Community Colleges	(\$188)	(\$1)	\$0	\$0	\$0	\$0	(\$9)	(\$197)	(\$20)	(\$217)
5. Counties	(\$1,132)	(\$762)	\$0	\$0	\$0	(\$65)	(\$57)	(\$2,016)	(\$134)	(\$2,150)
6. Other	(\$314)	(\$61)	\$0	\$0	\$0	(\$10)	(\$24)	(\$409)	(\$24)	(\$433)
7. Total	(\$5,728)	(\$1,073)	\$0	(\$62)	(\$16)	(\$93)	(\$192)	(\$7,164)	(\$560)	(\$7,724)

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

FLORIDA RETIREMENT SYSTEM
FISCAL IMPACT ANALYSIS

Impact of Increasing the Vesting Period for Members Initially Enrolled on or after July 1, 2012
Scenario 2: Vesting Period Increased to 10 Years

	FRS		Special Risk		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite
	Regular	Regular	Administration	Judicial	Leg-Atty-Cab	County				
A. Contribution Rates										
1. Present System Employer Costs (as reported the July 1, 2011 valuation - Table IV-4)										
a. Normal Cost	3.54%	10.74%	3.43%	9.93%	6.38%	8.20%	4.80%	4.68%	4.33%	4.64%
b. UAL Cost	2.36%	8.32%	37.14%	17.71%	37.41%	32.50%	14.73%	3.56%	6.21%	3.82%
c. Total Cost - FY 2013	5.90%	19.06%	40.57%	27.64%	43.79%	40.70%	19.53%	8.24%	10.54%	8.46%
2. Change in Contribution Rates due to Proposed Change Effective FY 2013 if Paid by Employer										
a. Normal Cost	-0.07%	-0.10%	-0.04%	-0.12%	-0.65%	-0.61%	-0.12%	-0.08%	-0.04%	-0.07%
b. Amortization of UAL Cost	0.02%	0.05%	0.00%	0.01%	0.23%	0.21%	0.03%	0.02%	0.00%	0.02%
c. Total Change in Cost	-0.05%	-0.05%	-0.04%	-0.11%	-0.42%	-0.40%	-0.09%	-0.06%	-0.04%	-0.05%
B. Additional/(Reduced) Unfunded Liability due to Proposal (\$000 omitted)	\$59,748	\$30,675	\$4	\$194	\$249	\$1,521	\$2,739	\$95,130	\$0	\$95,130
C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be paid by Employer for FY 2013 (\$000 omitted)										
1. State	(\$1,286)	(\$387)	(\$1)	(\$114)	(\$26)	\$0	(\$183)	(\$1,997)	(\$216)	(\$2,213)
2. School Boards	(\$5,314)	(\$9)	\$0	\$0	\$0	(\$32)	(\$47)	(\$5,402)	(\$495)	(\$5,897)
3. State Universities	(\$172)	(\$11)	\$0	\$0	\$0	\$0	(\$6)	(\$189)	(\$54)	(\$243)
4. Community Colleges	(\$309)	(\$1)	\$0	\$0	\$0	\$0	(\$19)	(\$329)	(\$40)	(\$369)
5. Counties	(\$1,887)	(\$1,279)	\$0	\$0	\$0	(\$119)	(\$125)	(\$3,410)	(\$268)	(\$3,678)
6. Other	(\$522)	(\$105)	\$0	\$0	\$0	(\$18)	(\$53)	(\$698)	(\$48)	(\$746)
7. Total	(\$9,490)	(\$1,792)	(\$1)	(\$114)	(\$26)	(\$169)	(\$433)	(\$12,025)	(\$1,121)	(\$13,146)

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

FLORIDA RETIREMENT SYSTEM
FISCAL IMPACT ANALYSIS

*Impact of Increasing the Vesting Period for Members Initially Enrolled on or after July 1, 2012
Scenario 3: Vesting Period Increased to 11 Years*

	FRS		Special Risk		Elected Officers' Class		County	Senior Management	Composite (excluding DROP)	DROP	Composite
	Regular	Regular	Regular	Admin	Judicial	Leg-Atty-Cab					
A. Contribution Rates											
1. Present System Employer Costs (as reported the July 1, 2011 valuation - Table IV-4)											
a. Normal Cost	3.54%	10.74%	3.43%	9.93%	6.38%	8.20%	4.80%	4.68%	4.33%	4.64%	4.64%
b. UAL Cost	2.36%	8.32%	37.14%	17.71%	37.41%	32.50%	14.73%	3.55%	5.21%	3.82%	3.82%
c. Total Cost - FY 2013	5.90%	19.06%	40.57%	27.64%	43.79%	40.70%	19.53%	8.24%	10.54%	8.46%	8.46%
2. Change in Contribution Rates due to Proposed Change Effective FY 2013 if Paid by Employer											
a. Normal Cost	-0.11%	-0.15%	-0.09%	-0.22%	-0.84%	-0.80%	-0.16%	-0.12%	-0.06%	-0.11%	-0.11%
b. Amortization of UAL Cost	0.02%	0.07%	0.05%	0.03%	0.30%	0.26%	0.04%	0.03%	0.00%	0.03%	0.03%
c. Total Change in Cost	-0.09%	-0.08%	-0.04%	-0.19%	-0.54%	-0.54%	-0.12%	-0.09%	-0.06%	-0.08%	-0.08%
B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)											
	\$88,265	\$43,994	\$9	\$495	\$323	\$1,885	\$3,394	\$138,365	\$0	\$138,365	\$138,365
C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be paid by Employer for FY 2013 (000 omitted)											
1. State	(\$2,336)	(\$625)	(\$1)	(\$196)	(\$33)	\$0	(\$243)	(\$3,434)	(\$324)	(\$3,758)	(\$3,758)
2. School Boards	(\$9,553)	(\$15)	\$0	\$0	\$0	(\$43)	(\$63)	(\$9,674)	(\$742)	(\$10,416)	(\$10,416)
3. State Universities	(\$541)	(\$16)	\$0	\$0	\$0	\$0	(\$8)	(\$565)	(\$82)	(\$647)	(\$647)
4. Community Colleges	(\$581)	(\$1)	\$0	\$0	\$0	\$0	(\$25)	(\$607)	(\$60)	(\$667)	(\$667)
5. Counties	(\$3,404)	(\$2,040)	\$0	\$0	(\$160)	(\$160)	(\$166)	(\$5,770)	(\$402)	(\$6,172)	(\$6,172)
6. Other	(\$943)	(\$167)	\$0	\$0	\$0	(\$24)	(\$71)	(\$1,205)	(\$72)	(\$1,277)	(\$1,277)
7. Total	(\$17,358)	(\$2,864)	(\$1)	(\$196)	(\$33)	(\$227)	(\$576)	(\$21,255)	(\$1,682)	(\$22,937)	(\$22,937)

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.